

Military Department of Tennessee

July 2003

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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John G. Morgan
Comptroller

July 29, 2003

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Major General Gus L. Hargett, Jr., Adjutant General
Military Department of Tennessee
3041 Sidco Drive
Nashville, Tennessee 37204

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Military Department of Tennessee for the period July 1, 2000, through March 31, 2003.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
03/041



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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April 29, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Military Department of Tennessee for the period July 1, 2000, through March 31, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Military Department of Tennessee's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Military Department of Tennessee is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Military Department of Tennessee's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Military Department of Tennessee
For the Period July 1, 2000, Through March 31, 2003

AUDIT SCOPE

We have audited the Military Department of Tennessee for the period July 1, 2000, through March 31, 2003. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of expenditures, the Station Commanders' Upkeep and Maintenance Funds, active duty payroll, equipment, the Financial Integrity Act, Department of Finance and Administration Policy 20—*Recording of Federal Grant Expenditures and Revenues*, and Department of Finance and Administration Policy 22—*Subrecipient Monitoring*. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDING

Inadequate Controls Over Equipment*

Equipment records were not always accurate. The department's inventory procedures were not completely followed. Also, proper procedures for the addition, deletion, and surplusing of equipment were not always followed.

* This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Military Department of Tennessee
For the Period July 1, 2000, Through March 31, 2003

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Military Department of Tennessee

For the Period July 1, 2000, Through March 31, 2003

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Military Department of Tennessee. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Adjutant General is responsible for the administration of the Military Department of Tennessee. The department’s four major divisions are outlined below.

Administrative Services

Management Services provides the following state-financed services: preparation and execution of the budget; fiscal and accounting services; management and training of personnel; and procurement, inventory control, and issue of supplies, material, and equipment. The Bureau of War Records compiles and preserves records of Tennessee war veterans.

The department’s Public Affairs Office deals with the news media. Included in the department are the federally oriented sections—United States Property and Fiscal Office, Inspector General, and Support Personnel Military Office—and their federal employees.

Tennessee Army National Guard

The Tennessee Army National Guard is under the direction of an Assistant Adjutant General and is required, under the provisions of the National Defense Act, to furnish armory, office, and storage facilities for the care and safekeeping of materials and equipment furnished by the federal government, and to provide the maintenance and operating costs of these facilities. The Assistant Adjutant General for the Tennessee Army National Guard is also responsible for the Tennessee State Guard and management of the various Station Commanders’ Upkeep and

Maintenance Funds throughout the state. The Tennessee State Guard is a voluntary organization that would provide personnel for the armory locations throughout the state in the event the National Guard was placed on active duty.

Tennessee Air National Guard

The Assistant Adjutant General for the Tennessee Air National Guard is responsible for the operation and maintenance of the Air National Guard facilities in Nashville, Memphis, Chattanooga, and Alcoa.

Emergency Management

The Tennessee Emergency Management Agency is under the administration of the Military Department of Tennessee. The division administers a statewide system of civil preparedness and coordinates the efforts of state departments and local civil defense organizations in emergency and disaster assistance and planning.

An organization chart of the department is on the following page.

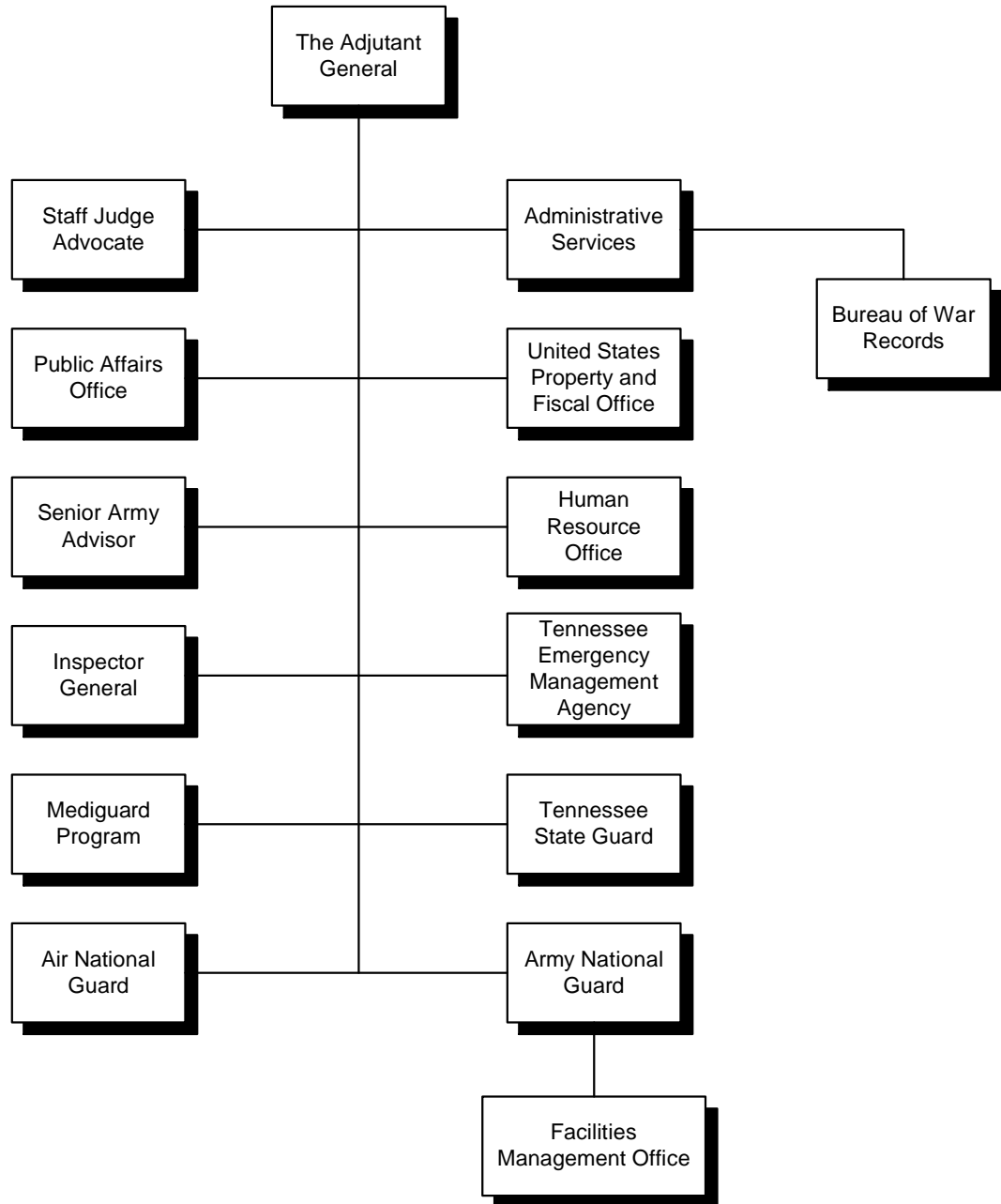
AUDIT SCOPE

We have audited the Military Department of Tennessee for the period July 1, 2000, through March 31, 2003. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of expenditures, the Station Commanders' Upkeep and Maintenance Funds, active duty payroll, equipment, the Financial Integrity Act, Department of Finance and Administration Policy 20—*Recording of Federal Grant Expenditures and Revenues*, and Department of Finance and Administration Policy 22—*Subrecipient Monitoring*. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Military Department of Tennessee filed its report with the Department of Audit on March 1, 2002. A follow-up of all prior audit findings was conducted as part of the current audit.

MILITARY DEPARTMENT OF TENNESSEE ORGANIZATION CHART



RESOLVED AUDIT FINDINGS

The current audit disclosed that the department has corrected the previous audit findings concerning inadequate segregation of duties; weak controls over the Station Commanders' Upkeep and Maintenance Funds; lack of adequate payroll documentation for active state duty payroll; inadequate recordkeeping procedures for federal active duty; noncompliance with Department of Finance and Administration Policy 22, *Subrecipient Monitoring*; and noncompliance with the Financial Integrity Act.

REPEATED AUDIT FINDING

The prior audit report also contained a finding concerning inadequate equipment records. This finding has not been resolved and is repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EXPENDITURES

Our review focused on determining whether

- recorded expenditures for goods and services were adequately supported, properly authorized, and correctly recorded in the state's accounting system;
- payments to vendors were made promptly;
- expenditures were in compliance with applicable state regulations;
- contract payments complied with contract terms and purchasing guidelines and were properly approved and recorded against the contract; and
- access to the State of Tennessee Accounting and Reporting System (STARS) and the Tennessee On-Line Purchasing System (TOPS) was properly restricted.

We interviewed key personnel to gain an understanding of management controls. We then selected a nonstatistical sample of expenditure transactions to determine if they were adequately supported, properly authorized, correctly recorded, paid timely, and processed in accordance with the applicable contract terms, rules, and regulations.

We determined that the expenditures were adequately supported, properly authorized, correctly recorded in the state's accounting system, paid promptly, and in compliance with the applicable regulations and contractual agreements.

We also interviewed key department personnel to gain an understanding of the department's procedures and controls related to STARS and TOPS access. We obtained a current listing of persons with access to STARS and TOPS. We then determined whether persons with update capabilities were active employees, had job duties which required this level of access, and had a level of access which created an adequate segregation of duties.

Based on our testwork of persons with STARS and TOPS access, we concluded that employee access was properly restricted with minor exceptions.

Although we had no findings related to expenditures, a weakness was reported to management in a separate letter.

STATION COMMANDERS' UPKEEP AND MAINTENANCE FUNDS

Money received for National Guard armory rentals is deposited into the station commanders' funds and used for upkeep and maintenance of armories. The objectives of our review were to determine whether

- appropriate accounting records were maintained;
- quarterly reports were submitted timely with the required information;
- receipts were prepared for all money received, and the money was deposited promptly;
- expenditures for goods and services were authorized and allowable;
- contracts were executed for all rentals of the armories; and
- payments for armory rentals were made in advance.

We interviewed key personnel to gain an understanding of management controls over the station commanders' funds. We visited six armories (Nashville, Smyrna, Smyrna 250, Gray, Jackson, and Chattanooga) and reviewed selected quarterly reports from five other armories (Paris, Trenton, Winchester, Lewisburg, and Dyersburg).

For the armories that were visited, we interviewed the fund custodian to gain an understanding of the controls and procedures over the funds. We also reviewed the accounting records and supporting documentation for one quarterly report. For the armories that were not visited, we reviewed supporting documentation included with one quarterly report.

Based on interviews and reviews of accounting records, quarterly reports, and supporting documentation, we concluded that, in all material respects,

- appropriate accounting records were maintained;
- quarterly reports were submitted with the required information;

- receipts were prepared, and the money was deposited promptly;
- expenditures were authorized and allowable;
- contracts were executed for all rentals of the armories; and
- payments for armory rentals were made in advance.

We were unable to determine if the quarterly reports had been submitted timely because the department did not document the receipt date. Although we had no findings related to the Station Commanders' Upkeep and Maintenance Funds, weaknesses were reported to management in a separate letter.

PAYROLL

Active State Duty

The Military Department of Tennessee uses an internally developed system to calculate the payroll for active state duty individuals. Our objectives in reviewing the active state duty payroll focused on determining whether

- there was a properly completed request for orders on file;
- there was a properly completed time sheet on file, if applicable;
- gross pay was calculated correctly;
- all allowances agreed with the approved pay schedules; and
- the federal income tax and FICA withheld were calculated correctly.

We interviewed key personnel to gain an understanding of management controls. We also selected a nonstatistical sample of payroll expenditures made to persons on active state duty to determine if the above objectives had been met.

Based on testwork performed, we determined that there were properly completed requests for orders and time sheets on file. We also determined that the gross pay and the federal income tax and FICA withheld were calculated correctly and that allowances agreed with the approved pay schedules. Although we had no findings related to the active state duty payroll, minor weaknesses were reported to management in a separate letter.

Federal Active Duty

Our objectives in reviewing leave and attendance records for department employees who also served on federal active duty were to determine whether

- employees paid by the federal government for active duty were on leave from the state during that time; and

- employees on military leave from the state were actually serving on federal active duty.

We obtained a listing of employees who had taken the maximum allowable amount of military leave during calendar year 2002. For 15 of these employees, we obtained state leave and attendance records and attendance calendars that show the dates and types of federal active duty. We compared the state and federal attendance records to determine if employees took leave appropriately.

Based on review of the employees' time and attendance records, we determined that the employees paid by the federal government for active duty were on leave from the state and employees on military leave from the state were actually serving on federal active duty. Although we had no findings related to federal active duty payroll, a minor weakness was reported to management in a separate letter.

EQUIPMENT

The objectives of our work in the area of equipment were to determine whether

- policies and procedures related to equipment were adequate;
- the information on the department's equipment listed in the Property of the State of Tennessee (POST) system is accurate;
- equipment leased from the Office for Information Resources (OIR) could be located and was properly tagged;
- vehicles leased from Motor Vehicle Management could be located, the logbooks were up-to-date, and the logbook entries were appropriate; and
- employee access to POST was appropriate.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the department's controls and procedures over equipment. We reviewed supporting documentation and tested a nonstatistical sample of equipment in POST costing at least \$5,000. These equipment items were physically located, and the description, tag number, serial number, and location were traced to POST. For items that were purchased during the audit period, the cost recorded in POST was traced to supporting documentation. We obtained a current billing record of equipment being leased from OIR and tested it to determine if the equipment could be located and was properly tagged. We obtained from Motor Vehicle Management a listing of all vehicles being leased by the Military Department and tested a nonstatistical sample to determine if the vehicles could be located, if the logbooks were up-to-date, and if the logbook entries were appropriate. We also obtained a current listing of persons with access to POST. We then determined whether persons with access were active employees, had job duties which required this level of access, and had a level of access which created an adequate segregation of duties.

Based on interviews, reviews of supporting documentation, and testwork, we found that the policies and procedures related to equipment were not always adequate and that the information on POST was not always accurate. This is discussed in the following finding. We found that the equipment being leased from OIR could be located and was properly tagged; the leased vehicles could be located, the logbooks were up-to-date, and the logbook entries were appropriate; and employee access to POST was appropriate except for a minor weakness that was reported to management in a separate letter.

The department needs to strengthen controls over equipment

Finding

As noted in the prior two audits, the Military Department does not have adequate controls over equipment. Testwork on 25 equipment items costing at least \$5,000 each disclosed the following:

- One item purchased during the audit period did not have the correct cost entered in the Property of the State of Tennessee (POST) system.
- Four of the 25 items tested (16%) were not at the location indicated in POST. The equipment's location code was the location of the custodian and not the actual location of the equipment.
- One of the 25 items tested (4%) had the incorrect State of Tennessee property tag attached. Two pieces of equipment were purchased on the same invoice. Apparently, the tags were switched when placed on the items.
- One of the 25 items tested (4%) had no serial number listed on POST. Upon physical inspection of the item, a serial number was found.

At the department, each piece of equipment is assigned to a person. The person who is responsible for the equipment performs the annual physical inventory. No one verifies the count as required by department policy. Also, a review of the annual physical inventory indicated that the department's listing of equipment was not always adjusted to reflect the results of the physical count.

Equipment was not surplused in accordance with the *Rules of the Tennessee Department of General Services*, "Disposal of State Surplus Property," Chapter 0690-2-1. In fiscal year 2002, 88 equipment items totaling \$130,560 were reported to the Department of General Services and the Comptroller of the Treasury as unlocated or missing. However, the Chief of Staff stated to the auditors that over time many of these items had been stripped and used for parts or were old unusable items that were scrapped. However, the equipment reported as unlocated or missing included high-risk sensitive items such as computers, monitors, scanners, television/VCR combinations, color televisions, and digital cameras.

Equipment purchases shown on the State of Tennessee Accounting and Reporting System (STARS) during fiscal year 2001 could not be reconciled with additions to POST; the difference of \$21,815 could not be explained. A back-up power supply costing \$7,621 purchased during 2003 was not added to POST. The *POST User Manual*, Appendix B – Basic Requirements for Additions, requires that “all items purchased with an object code of 16 with a total cost of \$5,000 or more including any freight and set up costs” be added to POST.

Departmental equipment is more easily lost or stolen if accurate records are not kept; proper inventory procedures are not followed; and proper procedures for the addition, deletion, and surplusing of equipment are not followed. Management concurred with the prior finding; however, controls over equipment have not improved.

Recommendation

The Director of Administrative Services should establish procedures to ensure that equipment records are updated and that all equipment purchased is properly added to POST. The Department of General Services’ policies and procedures should be followed for adding, deleting, and surplusing equipment. An independent person should verify the inventory counts. The director should monitor these procedures to ensure that they are implemented.

Management’s Comment

We concur with the finding that the department needs to strengthen the control over equipment purchases, ensure that adequate records are maintained, and ensure that items are properly recorded in POST. Management is in the process of developing a Standard Operating Procedure for Property Inventory, which will correspond to the Department of General Services’ guidelines. Once developed, these procedures will be distributed and discussed thoroughly with property managers in the department to help refamiliarize themselves with property guidelines. Assistant Commissioners will place additional emphasis on property management. Additionally, the department has recently hired a Director of Internal Review who will devote a portion of his time conducting periodic inventory of equipment. We are reviewing the segregation of duties in the Property and Procurement Division and will take appropriate action to correct this deficiency.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year.

Our objective was to determine whether the department's June 30, 2002, and June 30, 2001, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2002, and June 30, 2001, responsibility letters submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline. We determined that the Financial Integrity Act responsibility letters were submitted on time.

**DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20,
*RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES***

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our objectives were to determine whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- the department negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the Schedule of Expenditures of Federal Awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. We reviewed the STARS Grant Control Table, the indirect cost recovery plan, and the STARS reports used to prepare the Schedule of Expenditures of Federal Awards and the reports submitted to the federal government.

Based on interviews and reviews of supporting documentation, we determined that the appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award and that related revenue and expenditure transactions were coded with the proper grant codes. We determined that the department had negotiated an appropriate indirect cost recovery plan and that indirect costs were included in drawdowns. We also determined that the department utilized the appropriate STARS reports as bases for preparing the Schedule of Expenditures of Federal Awards and reports submitted to the federal government.

**DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 22,
SUBRECIPIENT MONITORING**

The Department of Finance and Administration Policy 22 establishes guidelines for uniform monitoring of subrecipients that receive state and/or federal funds from state departments, agencies, and commissions. Our objectives focused on determining whether

- the department submitted the required monitoring plans and annual reports to the Department of Finance and Administration; and
- the department identified all subrecipients to be monitored in the monitoring plans.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 22. We also reviewed the required plans and reports sent to the Department of Finance and Administration.

We determined that the department submitted the required monitoring plans and annual reports to the Department of Finance and Administration and identified all subrecipients to be monitored. Although we had no findings related to Policy 22, a minor weakness was reported to management in a separate letter.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Military Department of Tennessee filed its compliance reports and implementation plans on June 29, 2001, and October 21, 2002.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

ALLOTMENT CODES

Military Department allotment codes:

Division of Administration	341.01
Tennessee Army National Guard	341.02
Tennessee Air National Guard	341.03
Tennessee Emergency Management Agency (TEMA)	341.04
Armories Maintenance	341.07
TEMA Disaster Relief Grants	341.09
Armories Utilities	341.10